

What definition of General Fund Balance is most reasonable for this proposal?

From the Michigan Public School Accounting Manual SECTION II. E. 05.

MDE Definition of FUND BALANCE¹

"Fund balances (equity) of school district funds will be classified either as RESERVED or UNRESERVED..."

A fund balance **reserve** is a segregation of a portion of fund balance which is **legally restricted** for a specific future use, such as a reserve for encumbrances, or not available for appropriation or expenditures such as a reserve for inventories.

Where part of the fund balance is reserved, the remainder is reported as **unreserved**.

Within the unreserved category, a fund balance may be **designated**, which means that a portion of the fund balance is segregated based upon tentative future plans for utilization of the resources of a school district. **Such designations are subject to change and represent resources available to finance expenditures."**

Bold emphasis added.

Two Examples

Lansing (Blue handout)

Lansing has no reservations in its General Fund Balance, so Unreserved General Fund Balance is equal to Total General Fund Balance.

Warren Consolidated (Yellow handout)

Warren Consolidated has reservations equal to \$1,133,619, so Unreserved General Fund Balance is less than Total General Fund Balance.

The Balance Sheet from the district's 2008-09 Audit shows the Reserved General Fund Balance to be mostly "Encumbrances." (See A and B)

Encumbrances will become an expense in the following year.

UNRESERVED General Fund Balance is a reasonable basis for calculating the state aid offset.

Warren Consolidated is a good example of why it is unreasonable to use "UNDESIGNATED" General Fund Balance to calculate the state aid offset. This district designates most of its general fund balance to make it appear to that it has no spendable general fund balance. Designations can be reversed with a vote of the School Board. (See C and D.) The FID does not include UNDESIGNATED General Fund Balance.

¹The definitions will change beginning next year to more precisely define spendable fund balance.

Lansing Public Schools 2008-09 General Fund Balance from MDE FID report

Balance Sheet Report

School District: 33020 Lansing Public School District

Fiscal Year: 2008-2009

GENERAL FUND (FUND 11) BALANCE SHEET

| | July 1 Balance | September 30 Balance | December 31st Balance | March 31st Balance | June 30th Balance |
|--|----------------------|-------------------------|--------------------------|-----------------------|----------------------|
| Cash (101) (102)(103) | 670,536.68 | 3,528,401.00 | 9,463,008.00 | 10,581,898.00 | 500.00 |
| Investments (18x) | 12,441,869.45 | 12,500,000.00 | 18,500,000.00 | 15,500,000.00 | 17,128,610.58 |
| Other Current Assets: (11x) (12x)(13x) (14x)(16x) (17x)(19x) | 28,558,127.86 | | | | 25,786,702.91 |
| Total Assets | 41,670,533.99 | | | | 42,915,813.49 |
| Current Payables (40x) | 2,153,626.49 | 0.00 | 0.00 | 0.00 | 2,213,159.11 |
| Other Current Liabilities (41x - 49x) | 22,658,142.98 | | | | 23,354,327.14 |
| Total Liabilities | 24,811,769.47 | | | | 25,567,486.25 |
| Total Fund Balance (7xx) | 16,858,764.52 | | | | 17,348,327.24 |
| Reserves (71x) | 0.00 | | | | 0.00 |
| Unreserved Fund Balance (741-751) | 16,858,764.52 | | | | 17,348,327.24 |

Total GFB

Reserved GFB

Unreserved GFB

Warren Consolidated Schools 2008-09 General Fund Balance from MDE FID report

Balance Sheet Report

School District: 50230 Warren Consolidated Schools

Fiscal Year: 2008-2009

GENERAL FUND (FUND 11) BALANCE SHEET

| | July 1 Balance | September 30 Balance | December 31st Balance | March 31st Balance | June 30th Balance |
|--|----------------------|-------------------------|--------------------------|-----------------------|----------------------|
| Cash (101) (102)(103) | 16,689,952.91 | 42,069,360.90 | 28,016,508.73 | 23,735,843.94 | 19,657,525.90 |
| Investments (18x) | 3,484,582.64 | 6,992,293.94 | 1,600,093.42 | 7,600,093.42 | 1,618,973.42 |
| Other Current Assets: (11x) (12x)(13x) (14x)(16x) (17x)(19x) | 22,502,770.05 | | | | 25,169,411.30 |
| Total Assets | 42,677,305.60 | | | | 46,445,910.62 |
| Current Payables (40x) | 1,614,453.74 | 0.00 | 0.00 | 0.00 | 1,855,084.57 |
| Other Current Liabilities (41x - 49x) | 20,204,709.55 | | | | 23,960,320.70 |
| Total Liabilities | 21,819,163.29 | | | | 25,815,405.27 |
| Total Fund Balance (7xx) | 20,858,142.31 | | | | 20,630,505.35 |
| Reserves (71x) | 4,856,070.00 | | | | 1,133,619.00 |
| Unreserved Fund Balance (741-751) | 16,002,072.31 | | | | 19,496,886.35 |

Total GFB

Reserved GFB

Unreserved GFB

Warren Consolidated Schools

Governmental Funds Balance Sheet June 30, 2009

| | General Fund | Nonmajor Funds | Total Governmental Funds |
|--|----------------------|---------------------|--------------------------|
| Assets | | | |
| Cash and investments (Note 4) | \$ 21,276,499 | \$ 998,662 | \$ 22,275,161 |
| Receivables (Note 5): | | | |
| Taxes | 1,350,155 | 337,920 | 1,688,075 |
| Accounts and other | 342,374 | 115,897 | 458,271 |
| Due from other governmental units | 22,729,922 | - | 22,729,922 |
| Due from other funds (Note 7) | 114,100 | 1,280,372 | 1,394,472 |
| Inventories | 341,114 | 66,984 | 408,098 |
| Prepaid costs and other assets | 170,421 | - | 170,421 |
| Restricted cash and investments (Note 9) | - | 4,813,410 | 4,813,410 |
| Total assets | \$ 46,324,585 | \$ 7,613,245 | \$ 53,937,830 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 1,855,085 | \$ 82,601 | \$ 1,937,686 |
| Accrued payroll-related liabilities | 11,682,542 | - | 11,682,542 |
| Other accrued liabilities | 2,494,729 | 250 | 2,494,979 |
| Due to other governmental units | 187,158 | - | 187,158 |
| Due to other funds (Note 7) | 7,709,229 | 196,579 | 7,905,808 |
| Deferred revenue (Note 5) | 1,765,339 | 341,390 | 2,106,729 |
| Total liabilities | 25,694,082 | 620,820 | 26,314,902 |
| Fund Balances | | | |
| Reserved: | | | |
| Encumbrances | 792,505 | 108,260 | 900,765 |
| Capital projects (bonded) | - | (16,665) | (16,665) |
| Debt service | - | 4,649,504 | 4,649,504 |
| Inventories | 341,114 | 66,984 | 408,098 |
| Unreserved: | | | |
| Designated fund balance: | | | |
| Transportation | 1,000,000 | - | 1,000,000 |
| Debt service | 2,064,563 | - | 2,064,563 |
| Retiree health care | 1,200,000 | - | 1,200,000 |
| Technology | 1,500,000 | - | 1,500,000 |
| Curriculum | 1,000,000 | - | 1,000,000 |
| Payroll and cash flow | 12,000,000 | - | 12,000,000 |
| Building improvements | - | 2,149,055 | 2,149,055 |
| Undesignated, reported in: | | | |
| General Fund | 732,321 | - | 732,321 |
| Special Revenue Funds | - | 35,287 | 35,287 |
| Total fund balances | 20,630,503 | 6,992,425 | 27,622,928 |
| Total liabilities and fund balances | \$ 46,324,585 | \$ 7,613,245 | \$ 53,937,830 |

The Notes to Financial Statements are an
Integral Part of this Statement.

Warren Consolidated Schools

Notes to Financial Statements June 30, 2009

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the current year, the budget was amended in a legally permissible manner. Significant adjustments to federal and state sources of revenue were needed to reflect changes in current funding, unknown at the time of the original budget amendment.

(B) →

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Fund Deficits - The School District has an accumulated fund balance deficit in the 2001 Unlimited Capital Projects Fund as a result of deferred revenue in connection with receivables not considered to be available to liquidate liabilities of the current period. The deficit will be eliminated in April 2010 when full consideration on the receivable is received.

Note 3 - Fund Balance

Fund balance as of July 1, 2008 has been restated for a change in financial statement presentation. General Fund fund balance at June 30, 2008 of \$20,987,717 is presented for each school service fund separately on July 1, 2008 as follows:

| | |
|----------------|----------------------|
| General Fund | \$ 20,858,144 |
| Cafeteria Fund | 70,105 |
| Bookstore Fund | <u>59,468</u> |
| Total | <u>\$ 20,987,717</u> |

In prior year, School Service Funds were presented as part of the General Fund.